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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BBF3284 – INTERNATIONAL FINANCE
(All sections/Groups)

08 FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 5 pages with 1 section.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

STRUCTURED QUESTIONS (100 MARKS)**QUESTION 1**

MOSCOW (Reuters) - The Russian rouble slumped to a more than three-month low and within a whisker of 64 to the dollar on Tuesday, hurt by escalating geopolitical risks linked to the conflict in Ukraine and reduced supply of foreign currency among exporters.

By 1201 GMT the rouble was down 1.2% against the dollar at 63.44 after touching 63.9975 for its weakest since July 7.

It had lost 2.5% to trade at 62.95 versus the euro, earlier sliding beyond the 63 mark for the first time since Aug. 11. It had shed 1.4% against the yuan to 8.78, a near three-week low.

"During the session we expect continued pressure on the rouble against the backdrop of lower supply of foreign currency from exporters," Banki.ru analyst Bogdan Zvarich

Note. Adapted from Reuters (2022, October 11). Rouble hits multi-month low past 64 vs dollar on Ukraine escalation fears. <https://www.investing.com/news/economy/rouble-hits-multimonth-low-on-ukraine-escalation-fears-2909217>

- (i) In light of the rapid depreciation of the Russian rouble, make a recommendation to the monetary authority of the country concerning a suitable exchange rate regime. Briefly explain. (5 marks)
- (ii) Describe the implications of your proposed regime. (20 marks)

(Total: 25 marks)

QUESTION 2

- (a) ABC Co is a company based in the USA, supplying medical equipment to the USA, Switzerland, and Germany. ABC's treasury department hedges foreign exchange risk on transactions using forward contracts and the money market. It is currently 30 November 2022.

ABC Co's treasury department is currently dealing with a sale to a Swiss customer of CHF12.3 million which has just been agreed, where the customer will pay for the equipment on 31 May 2023.

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Exchange Rate (quoted as US\$/CHF 1)

Spot: 1.0292

Three-months forwards: 1.0322

Six-months forwards: 1.0356

Annual Interest Rate

USA: 5.2%

Germany: 3.8%

Switzerland: 3.8%

- i. Evaluate which of the possible methods of hedging being considered would give ABC Co the highest receipt. (11 marks)
 - ii. Estimate the six-months forward rate that makes no difference to both methods. (4 marks)
- (b) Your manager expressed concern that the exports of the company will be adversely affected by the depreciation of the Ringgit Malaysia (RM). In your opinion, he was wrong and consequently, you argued with him. Your argument should be summarised in **TWO (2)** points. (10 marks)

(Total: 25 marks)

QUESTION 3

- (a) Consider the following data. Suppose the expected exchange rates are the average expectations by investors for exchange rates in one year. Assume that the interest rates are for equally risky assets and are annual rates.

	United States	Australia	Singapore
Current Exchange Rate	–	1.90 A\$/US\$	1.80 S\$/US\$
Expected Exchange Rate	–	2.10 A\$/US\$	1.60 S\$/US\$
Current Interest Rate (%)	2.0	4.0	1.0

- (i) Calculate the rate of return for a U.S. dollar investor investing in the Australian and Singapore deposit for one year. (8 marks)
- (ii) Among these three options (United States, Australia, and Singapore), which is the best place for the investor to invest? Which is the worst place?

(2 marks)

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- (b) TOKYO -- The Japanese yen dropped to a 32-year low on Thursday as the country's central bank bucks the U.S. Federal Reserve's monetary tightening and maintains its loose policy.

The yen was briefly trading at around 147.65 against the dollar, crossing the 147.64 mark it recorded in 1998 and hitting its weakest point since August 1990.

The softening of the yen was spurred by a sharper-than-expected rise in U.S. consumer prices in September, released earlier that day.

The yen's depreciation has accelerated since last month, surpassing the 140-mark at the beginning of September.

Note. Adapted from Iwamoto, K. (2022, October 13). Yen weakens to 32-year low, declining past 147 per dollar. *Nikkei Asia*. <https://asia.nikkei.com/Business/Markets/Yen-weakens-to-32-year-low-declining-past-147-per-dollar>

Define the balance of payment (BOP). Analyse the possible impact of the depreciation of the yen on the following factors.

- (i) Trade of goods
- (ii) Trade of services
- (iii) Net income received from abroad

(15 marks)

(Total: 25 marks)

QUESTION 4

- (a) XYZ is an employee of ABC Corporations' foreign exchange department. XYZ has been given the following information:

Spot rate of €	\$1.2600
Spot rate of Singapore dollar (S\$)	\$0.7000
Spot rate of €	S\$1.4000
One-year forward rate of S\$	\$0.7100
One-year forward rate of €	\$1.3800
One-year U.S. interest rate	8.00%
One-year Germany interest rate	9.09%
One-year Singapore interest rate	7.00%

Determine whether triangular arbitrage is feasible and, if so, how it should be conducted to make a profit. Assume that you have \$1 million or equivalent for this purpose. Calculate the profit. (12 marks)

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- (b) Explain the international Fisher effect (IFE). Illustrate the implications of the IFE for firms that consistently invest in foreign Treasury bills with excess cash?
(8 marks)
- (c) Discuss **TWO (2)** disadvantages associated with having foreign subsidiaries with a high degree of leverage?
(5 marks)

(Total: 25 marks)

End of Paper